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Balance Scorecard-Strategy Mapping Tool: A Case Study

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ABSTRACT

A balanced scorecard (BSC) is a visual tool used to measure the effectiveness of an activity against the strategic plans of a company. Balanced scorecards are often used during strategic planning to make sure the company's efforts are aligned with overall strategy and vision. It was created to help businesses evaluate their activities with more than just a straight financial eye using revenues, costs, and profits. A traditional balanced scorecard examines the initiatives of a company from four different perspectives: Financial, Learning & Growth, Business Processes, and Customer. These activities are noted in the appropriate buckets with stated measures, targets, and objectives for data collection and analyzing. The activities then can be evaluated and assessed properly, while there is great need to understand how tangible and intangible assets interact to drive the business model and to achieve its performance.

Keywords: Strategy Mapping, Strategic Planning, Performance, Vision and Strategy.

1. INTRODUCTION

The balanced scorecard is a strategic planning and management system that is used extensively in business and industry, government, and nonprofit organizations worldwide to align business activities to the vision and strategy of the organization, improve internal and external communications, and monitor organization performance against strategic goals. It was originated by Drs. Robert Kaplan and David Norton as a performance measurement framework that added strategic non-financial performance measures to traditional financial metrics to give managers and executives a more 'balanced' view of organizational performance. While the phrase *balanced scorecard* was coined in the early 1990s, the roots of the this type of approach are deep, and include the pioneering work of General Electric on performance measurement reporting in the 1950's and the work of French process engineers in the early part of the 20th century.

This approach builds on the strategy map as a tool to represent visually how intangibles drive tangible value. Critically, there is the understanding that, It is not the organisational assets that delivers value but the deployment and configuration of such assets (tangible and intangible).Organisational assets are interdependent and cannot create value on their own – a strong brand for example is worth less without the supporting processes to produce good quality products or services, the latest technology requires the complementary knowledge to operate it; and best production capabilities are worth little without a good distribution network; and not all assets are of equal importance in the value-creation process.

Strategic importance of intangible assets: Organisations realise that it is their intangible assets that create distinctive organisational capabilities, which in turn are the basis for a competitive advantage. It is no longer sufficient to just identify the competitive forces, opportunities, and threats of the industry. In addition, organisations have to understand their corporate competence and resource composition in order to evaluate these opportunities. Different firms develop different distinctive competencies to pursue certain opportunities. Organisations as heterogeneous entities characterized by their unique resource base. This resource base consists increasingly of intangible assets. This means that the intangible assets of a firm should be one of the central considerations in formulating strategy and one of the primary constants upon which a firm can establish its identity and frame its strategy. In summary, it is the interaction between resources (tangible or intangible) that drive capability differentials, which in turn drive competitive advantage. This is why organisations need to bring intangible resources and core competencies into their strategic thinking.

Objectives: The value of the balanced scorecard as a tool for integrating sustainability concerns into organisational strategy, and for embedding this throughout the organisation.

To address these perceived shortcomings we took the decision to:

- Include issues relating explicitly to environmental and social risk in each of the scorecard perspectives; and

- Involve a broad array of people (environmental/social managers) in a number of steps of the building and running of the balanced scorecard construction and management process.

- The identification of strategic issues to which environmental and social operations might have a key contribution. This was facilitated by the exercise of mapping strategies in terms of cause and effect diagrams.

- Greater collaboration between environmental/social managers and marketing managers, financial controllers and operation managers at the business-unit level.

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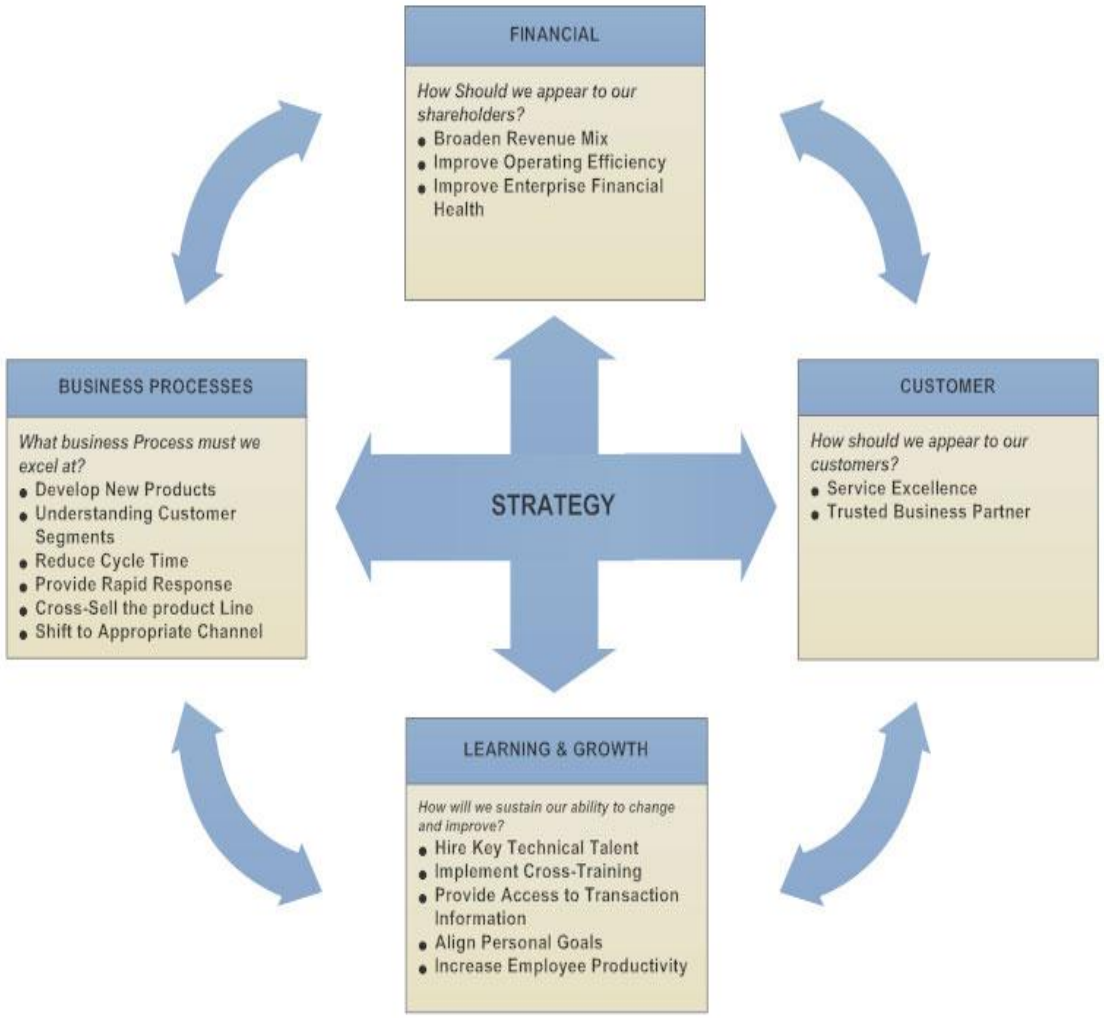

Adapted from the Balanced Scorecard by Robert S. Kaplan and Dave P. Norton. Harvard Business School Press. 1996.

Figure-1: Shows the breakdown of organisational assets into physical, monetary, and intangible assets. Intangible assets are then sub divided into human, relational, and structural assets. Below, each of the intangible assets categories is described in further detail.

Effective Performance Management

For the purpose of this report, intangible assets are defined as those key value drivers that do not have a physical presence and are based on intelligence or emotions. They may be analysed as:

- Human assets: skills, competence, commitment, motivation, loyalty of employees, technical expertise, problem-solving capabilities, creativity, education, attitude, entrepreneurial spirit.

- Relationship assets: relationships with stakeholders, licensing agreements, partnering agreements, contracts, distribution arrangements, customer loyalty, brand image; and

- Structural assets: all intangibles that stay with the organisation –corporate culture, routines and practices, virtual networks, tacit rules, intellectual property – patents, copyrights, trademarks, brands, registered designs, trade secrets and processes whose ownership is granted by law.

The dynamic nature of intangible assets It is not the stock of assets (tangible or intangible) that deliver value, rather it is the deployment, configuration and interactions between these assets, and the transformation process from inputs into outputs/offerings that is key.

The process of identifying and mapping value creation in firms is relatively straightforward.

Step 1: Identify key resource stock, by linking internal competencies with external opportunities. This can be done using either a top-down approach or a bottom-up approach.

Step 2: Arrange a workshop of senior management to identify the organisation's key resource stock, based on pre-prepared lists; and identify and rank the key resources in order of importance, prepared by each participant.

The workshop is used to consolidate the different views into one document. The outcome of the workshop is a map of the key resources and their relative importance.

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Step 3: The map of the key resource stock is given to all workshop participants, plus a matrix containing the same resources in rows and columns. Participants then each complete the matrix, rating the influence of all resources on each other, until all combinations are complete.

Step 4: The Value Creation Map approach offers the freedom to depart from the four perspectives of the balanced scorecard framework and start from a blank sheet of paper in order to reflect the idiosyncratic nature of each firm. For instance, where improvement of the conformity of the prototype with the product design is a key value driver of new product development, there will be a series of indirect dependencies behind this occurring such as codifying procedures and problem solving capacity.

Effective Performance Management beyond Kaplan and Norton – alternative complementary approaches

● Create a list of assets used to execute strategy and differentiate organisation from competitors;

● Clarify relationships between VDF identified assets, explaining how they interrelate to deliver customer value;

● Identify strengths, weaknesses, opportunities and threats underlying the VDF; and

● Define the critical success factors underlying the company strategy, and identify particular combinations of assets as being supportive of each critical success factor.

It is argued that using the VDF and this four-step process helps organisations to focus their balance scorecard metric selection process on the assets and critical success factors most important to achieving strategic goals.

Scorecard implementation

Kaplan and Norton's five guiding principles together form a useful construct supporting scorecard implementation. An interesting alternative is offered in Peter Brewer's Business Modelling Approach, outlined below.

The Business Modelling Approach

Causal links are key to the scorecard development and implementation process, but business modelling involves a 13-step programme with a three-phase implementation programme:

Phase one: Characterize the business model as a process, by identifying:

● The customer value proposition offered;

● Key (product/service) outputs that enable delivery of the value proposition;

● The processes required to support provision of these outputs;

● The critical inputs that allow the processes to function optimally; and

● The suppliers that provide the inputs that enable processes to function optimally.

The Value Creation Map was developed to complement Kaplan and Norton's original strategy map. Its developers suggest that the processes followed in its configuration ensure consensus among managers that the representation is correct and bias is limited, and propose that further useful steps would be to:

● Integrate the map with the performance measurement system;

● Test empirically the assumption using performance indicators.

Unlike the traditional strategy map, this approach identifies both the direct and indirect dependencies of performance as well as differences in importance. Understanding the relative importance of specific assets in the creation of capabilities and value enables better resource-allocation decisions.

The Value Dynamic: Framework

Peter Brewer introduced the Value Dynamics Framework (VDF). This is as a tool that can help companies to bridge the gap between strategy statements and balanced scorecard implementation.

The VDF recognizes five asset classifications (physical assets, customer assets, organisational assets, financial assets and employee/supplier assets), and recognizes inherently the increasing importance of intangible assets. Thus the value creation capabilities of organisational, customer and employee/supplier intangible assets are brought into the scorecard framework, through Brewer's four-step model:

Phase two: 'Map' the specific customer value propositions and product/service outputs that drive the attainment of specified financial goals;

Phase three: Select internal business process measures.

The 13 steps:
1 define financial goals;
2 define customer;
3 define outputs;
4 define processes;
5 define inputs
6 define suppliers;
7-9 prepare 'if – then' matrices for financial drivers, customer value drivers and process drivers and 10-13 select balanced scorecard measures, for each scorecard perspective.

The business modelling approach claims three strengths

● It offers a lock-step methodology to guide the balanced scorecard formulation process;

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● It adds rigour to the process of linking organisational strategy to the balanced scorecard since the first nine steps of the business modelling approach must be completed before any measures can be selected. This means that the organisation must crystallise its strategic vision into a process-oriented business model, linked together through 'if-then' hypothesis statements; and

● By following the questionnaire, coupled with the 'if-then' matrices, it provides organisations with the tools needed to ensure that all members of the management team have an opportunity to provide input into the balanced scorecard formulation process.

2. DIMENSIONS OF SCORECARD APPLICATION

The success of front-line performance improvement in the Organization is linked inextricably to the development of partnerships between policy makers, strategists and front-line staff. What is crucial to the success of the balanced scorecard and other performance improvement initiatives is not the sophistication of such initiatives, but the extent to which they are jointly designed by senior management and front-line staff. The communication styles used in discussing and evaluating performance objectives.

Part of the value of the balanced scorecard as an effective tool for strategic management lies in the versatility of the framework, which may be adapted according to organisational needs. Accordingly, a balanced scorecard approach can be adopted by organisations in the public and nonprofit sectors. However, following a mechanistic scorecard template, without understanding the organisation's key strategic/value drivers is unlikely to help realise desired activities and behaviours.

However the scorecard is adapted, the cause and effect relationships inherent in activities are key. By deriving multiple and inter-linked strategic 'themes', which underscore the overall strategy, the process of defining lower level operational objectives, measures, targets and initiatives relating to a particular theme is made easier.

Scorecard approach an appropriate integration tool for four main reasons:

1) Because of the scorecard's (medium to long-term) time horizon. This reflects the time horizon through which environmental and social management activities might be expected to create value

2) The scorecard approach requires top management to acknowledge implicitly the limitations of relying solely on financial indicators.

3) The explicit 'cause and effect' analysis of which the scorecard is comprised, fosters the level and breadth of discussion and exchange which are helpful for the full consideration of sustainability issues, which occur along the value-creation chain.

4) The scorecard is the focus of a widespread strategy management process which is conducive to intelligent consideration of the strategic value of environmental/social issues.

3. CONCLUSION

In its original format, the scorecard is concerned more with strategic success from the owner/shareholder perspective. Some commentators have noted that its apparent disregard for the wider impact of corporate activity on other stakeholders may ultimately weaken the value of the scorecard in the longer term. However, the value of the scorecard as a strategic management framework to re-orientate strategic thinking and integrate sustainability issues in the scorecard design.

4. LIMITATIONS

1) The framework appeared to lack an appropriate mechanism to include risk that went beyond those relating to client needs.

2) The process was insufficiently codified – it did not enumerate principles that would help firms to decide who should be involved in discussions regarding scorecard design, or when and in what form sustainability considerations should be included.

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